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The Principles of Cooperation

and Their Relation
to Success or Failure

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Rochdale Pioneers' First Shop, Toad Lane.

The Rochdale Equitable Pioneers' Society, Ltd., opened for business by candlelight in the lower front room of this building on December 21, 1844. Its stock of goods: 50 pounds of butter, 56 pounds of sugar, 6 sacks of flour, a sack of oatmeal, and 24 candles (some used to light the room). Photo courtesy Rochdale Society.

Some of the principles underlying probable success of a co-operative were laid down many years ago by the Rochdale Pioneers. They are still good today. This bulletin discusses the principles and suggests other factors that will contribute to successful operation of a coöperative venture.



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The Principles of Cooperation and Their Relation to Success or Failure¹

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ORGANIZED COÖPERATION for economic purposes as we know it today is rooted in the distant past. Some experiments have been tried over and over by the same or different groups for similar or different purposes. Out of these experiments, unsystematic though they may have been, has grown some knowledge which may be of help to present and future generations of coöperators if it can be formulated for general applicability.

Much has been written during the past century about the coöperative way of doing business. Many of the writings contain discussions of such topics as "principles of coöperation," "fundamentals of coöperation," or "essentials for success in coöperation." A study of these writings suggests that the authors were discussing largely the same sorts of ideas. They had sought what seemed to them important general truths about coöperation. They set these down as rules which they hoped would guide their readers to "correct action" in the establishment and operation of coöperative associations.

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Correct action has usually had two meanings, the emphasis varying with the thinking of the writer: (1) functioning as a "true coöperative" (as the particular writer conceived it); and (2) functioning to favor continued success. Discussions of "principles" have usually emphasized the first point, discussions of "essentials" the second point. Both ideas are nearly always involved in varying degree in the numerous writings.

The most widely known and generally recognized of principles for establishing and operating a true coöperative are the "Rochdale Principles," so called because they were embodied in the rules—bylaws in the United States—of the Rochdale Society of Equitable Pioneers organized in 1844 by a group of workers in the town of Rochdale, England.

This coöperative society was so successful that it attracted the attention of writers who began to study its rules and methods of operation to learn the secrets of its success. Among the first and certainly the best-known writer was George Jacob Holyoake who, in 1857–1858, thirteen years after the Society's founding, published his *History of Coopera-*

tion in Rochdale,² and in 1875 the first volume of *History of Cooperation*, and in 1878 his *History of the Rochdale Pioneers*. The last was an enlargement of the first. These books were translated into many languages and have encouraged formation of countless coöperatives.

A number of the Rochdale Principles constitute the central core, and often the inspiration as well, of much of the cooperation found in many countries the world over, not only among city workers, but also in agriculture. In some groups these principles have attained almost a religious status. Said one writer: "... It is scarcely realized generally how great is the devotion of cooperators in those countries to the ideals of Rochdale and the monumental success of cooperation in

the land of its birth. To throw doubt upon the principles of the 28 poor weavers is to question the foundations of society." (May, 1935; pp. 1-6.)³

This bulletin presents the results of a careful examination of many writings, both early and more recent, and an attempt to interpret them for present-day purposes in the light of intimate personal observation of many coöperatives during a third of a century.

We shall proceed to develop the subject by examining: first, the background out of which the Rochdale Plan and its principles developed; second, the nature of these principles and their bearing on success or failure; and third, what other points should be thought of as principles essential to success in coöperation.

What is a Cooperative Association?

WE MAY WELL get in mind before we go any further what we mean by a coöperative association. Several persons working together to build a barn, as was done in the old, barn-raising bees, are coöperating, but they do not constitute a coöperative association. A group of persons meeting periodically for the purpose of discussing topics of mutual interest likewise may be coöperating, but we would hardly call the group a coöperative association, even though it was formally organized. We would suggest, as a usable definition, the following:

A coöperative association is a voluntary organization of persons with a common interest, formed and operated along democratic lines for the purpose of supplying services at cost to its members, who contribute both capital and business.

This definition covers the main features of a coöperative association. First, it is an association of people who have joined of their own free will. Second, its members have a common interest as users of the goods or services which the association provides or as producers of

² First published as a series of articles and shortly thereafter in book form; an American edition was published by Horace Greeley's *New York Tribune*.

³ See "Literature Cited" for citations, referred to in the text by author and date.

the products it sells. Third, it operates along democratic lines, preferably on the one-man-one-vote basis, although additional votes are often related in some way to patronage. Fourth, a coöperative association performs services at cost, with any underpayment or overcharge distributed on the basis of patronage. Fifth, members contribute both capital and business.

The last three features distinguish co-operative associations from proprietary

businesses. Control in the latter is related to the amount of voting stock held. Earnings belong to the stockholders in proportion to holdings. (However, different classes of stock may share unequally, as when preferred stock is restricted to a stated maximum rate.) And the persons who contribute capital need not, and in fact seldom do, buy the products or services of such a corporation. In a coöperative members are always expected to buy its products or services.

Background of Rochdale

SINCE THE Rochdale Principles are the basis of most discussions of principles of coöperation, we may get a better understanding of their significance as well as their limitations if we examine the background from which the founders of the Rochdale Equitable Pioneers Society got their ideas.

Economic and social conditions.

The economic background of the Rochdale system was the Industrial Revolution, which in Great Britain reached its height roughly between 1760 and 1840. The term Industrial Revolution has come to be applied to the changes of that period because a large number of industrial developments came relatively suddenly and with far-reaching social and economic effects. Coöperation developed in Great Britain during the early 1800's as a remedy for bad economic and social conditions. It took a variety of forms with varying degrees of success. There are isolated reports of earlier coöperatives in remotely separated areas of Britain in which small groups of persons jointly undertook to improve their

status. The earliest instance of formal coöperation known to us was that of a society at Fenwick, Scotland, which began to buy "victuals" for its members in 1769 (Flanagan, 1920; pp. 22, 440-41). Robert Owen in 1820 proposed the establishment of self-governing "villages of co-operation" which would be largely self-sustaining (Jones, 1894; pp. 40, 51, 52, 54). The idea had wide popular appeal but failed in practice largely because it aimed at a handicraft-spade husbandry type of community in an age when the rapid development of machine production required more and more specialization with increasing dependence upon trade.

Beginning in 1827 and continuing to 1834, there was a rapid development of coöperatives, mostly coöperative stores but also coöperative workshops. By 1832, the statement was made that "there are at present between 400 and 500 coöperative societies established, and these are spread over the United Kingdom" (Jones, 1894; p. 79).

The whole coöperative movement suffered a severe setback in 1834 when an

elaborate trades union scheme collapsed, pulling down with it most of the production societies, the labor exchanges, and many of the coöperative store societies (Cole, 1925; pp. 215-19).

However, it is not true, as Holyoake implied in his *History of Cooperation* in 1875, that coöperation was dead in 1844 when the Rochdale Society of Equitable Pioneers was formed. A considerable number of coöperatives must have remained after the collapse of 1834, for as late as 1884 there were still 37 societies in operation which had been organized before 1844—some 22 of them before the collapse of 1834-35 (Acland and Jones, 1884; p. 23). Certainly the 37 societies of 1884 could not have been the only ones in existence in 1844! There is no doubt, however, that interest in coöperation was low between 1834 and some time after 1844.

Coöperative background of the Pioneers. The job done by the Rochdale Pioneers in drawing up the plan for their new coöperative has been praised by innumerable writers for nearly a century—and justly so. But the Rochdale men had invented nothing new. Their great service consisted in drawing on the past experience for guidance in their new venture. As Cole puts it: "What the Rochdale Pioneers hit on . . . [was] a combination of several ideas—none of them individually novel, but making up a total that was essentially new." (Cole, 1944; p. 63).

The job of the Pioneers. The "Rochdale Pioneers," as the founders of the Rochdale Equitable Pioneers Society are popularly called, are often referred to as "the 28 flannel weavers" or "the famous 28." Actually, they were not all weavers, and the number 28 is dubious (Cole, 1944; pp. 402-13, 61-63). A variable group of workers had met at intervals for nearly a year to discuss what could be done to improve their condi-

tions now that strikes and other plans had failed. A small group urged coöperation and later drew up the plans under the leadership of one Charles Howarth, a worker in a cotton mill. Various reports indicate that Howarth and his associates were men of ability who took part in a variety of public affairs (Holyoake, 1893; pp. 83-86, 165-66; Brown, 1945; pp. 18-21, 40-46). Several of them had joined one or two of the three earlier societies that had failed in Rochdale. After perhaps a year of study and discussion, the society was organized in August, 1844 (Cole, 1944; p. 405), and the store opened for business on December 21, 1844 (Holyoake, 1893; p. 13).

The Pioneers did not draw up a list of principles. Instead, they brought together out of their study of past experiences the good features, much as a modern automobile builder brings together and builds into his machine what seem to him the best features developed so far. Even Holyoake, writing some thirty years later, in 1878, did not present a list of principles. Instead, he listed "the fourteen principal features of the 'Rochdale System'." (Holyoake, 1893; p. 156.) It remained for other writers to formulate and list them as "principles." The principal features as Holyoake listed them were:

1. The Pioneers set the example of beginning a Store with funds of their own providing mainly.
2. Supplying the purest provisions they could get.
3. Giving full weight and measure.
4. Charging market prices, and not underselling or competing with shopkeepers.
5. Taking no credit, nor giving any; thus discouraging debt among working people.
6. Giving the profits made to members in proportion to their purchases; acknowledging that they who make the profit should share it.

7. Inducing members to leave their profits in the Profit Bank of the Store to accumulate, thus teaching them thrift.
8. Fixing interest at 5 per cent. that Labour and Trade (which alone make capital fruitful) may have a fair chance of gain.
9. Dividing in the workshop the profits among those who have earned them, in proportion to their wages.
10. Devoting 21½ per cent. of all profits to education, to promote the improvement and efficiency of the members.
11. According to all members the democratic right of voting (one person one vote) upon all appointments and propositions, and according to women the like right to vote and to receive their saving whether they were single or married, and this long before the Married Woman's Property Act existed.
12. The intention of extending co-operative commerce and manufacture by the establishment of an Industrial City, in which crime and competition should cease.
13. In originating the Wholesale Buying Society, they created means of fulfilling their own professions, of supplying provisions of ascertained genuineness, which otherwise would have been impossible to them.
14. The conception of the Store as an Institution as the germ of a new social life, which should by well directed

self-help ensure morality and competence to all the industrious.

Here we have a loose mixture of aims, procedures, and what later became known as "principles." A decade later, in 1884, Acland and Jones, in a popular book, listed nine "essential points" along with a group each of "causes of success" and "causes of failure" (Acland and Jones, 1884; pp. 72-74). The essential points were:

1. The store is open to all
2. Charges ordinary market prices
3. Receives ready money only and gives no credit
4. Gives dividends in proportion to purchases
5. Every member must have a share or shares and receive good interest on them
6. All are equal in voting power, whether they have few or many shares
7. The store sells genuine articles which are what they profess to be
8. The store has an honest manager and an active committee
9. The Society insists on an efficient and intelligent audit and stocktaking.

Rochdale Principles brought to the United States. The Rochdale Plan must have become known to numerous persons in the United States soon after

In 1867 the Rochdale Society moved into this building which it still occupies as its "central premises." It is said to operate over 50 grocery branches and other establishments offering other services. According to its half-year statement of March, 1956, sales for the half-year were £727,247; membership stood at 29,560. Photo courtesy Rochdale Society.





Photo of 13 of the original Rochdale members. Back row: James Manock, flannel weaver; John Collier, engineer; Samuel Ashworth, flannel weaver; William Cooper, flannel weaver; James Tweeddale, clogger; Joseph Smith, woolsorter. Front row: Jas. Standing, weaver; John Bent, tailor; James Smithies, woolsorter and bookkeeper; Charles Howarth, warper; David Brooks, printer; Benjamin Rudman, pedlar; John Scowcroft, hawker. (Occupational data from G. D. H. Cole, "A Century of Cooperation," and G. J. Holyoake, "The History of the Rochdale Pioneers.")

its establishment, though no evidence is at hand on this point. There was undoubtedly some interest in coöperation. Several colonies had attracted attention, including New Harmony and Brook Farm. A few coöperative stores are said to have been established in Massachusetts between 1830 and 1840 (Bur. Statistics Labor [Wright] 1877; p. 58; Newton, 1833; p. 327; Brown, p. 41) and a later group beginning in 1845 (Bur. Stat. Labor, 1877; p. 69). Neither group seems to have had any connection with coöperative activity in Britain. No information is at hand about the first group. The second group, started at the very time the Rochdale Pioneers were getting under way, aimed mainly to get lowered prices (Commons, 1911; p. 214).

The Rochdale Plan was doubtless called to the attention of persons in this country in 1857 when Holyoake started his *History of Cooperation in Rochdale* as a series of articles in the *Daily News*. After it appeared as a book, "Mr. Horace Greeley of the New York Tribune had an edition printed in New York."⁴

A Philadelphia group is said to have organized the first coöperative store on the Rochdale Plan in the United States. It obtained the rules and other documents of the Rochdale Pioneers and planned its organization along the same lines. The association was organized on

⁴ We have not been able to find this listed. It should have been about 1860. The above quotation is from the Preface of the Tenth Edition (1893) of Holyoake, *History of the Rochdale Pioneers*, p. vii.

December 16, 1862, under the name "Union Cooperative Association No. 1." Its store was opened in April of 1864. It grew rapidly—too rapidly. It opened several branches, but sales did not increase sufficiently to cover added outlays. The store closed in November, 1866 (Bemis, 1888; pp. 141–42).

The Rochdale Plan was popularized in the United States in the 1870's through two national organizations: the Sovereigns of Industry and the Patrons of Husbandry—more commonly called the Grange. John Orvis became national lecturer for the Sovereigns in 1874. He had been an active member of the Brook Farm Colony near Boston about 1844–45. In 1862 he had gone to England to study coöperation, "especially the Rochdale Plan." "His return in 1865," says Swift, "was the beginning of a systematic effort to introduce cooperative stores in the United States." (Swift, 1900; pp. 179–80.) The Grange had been influential in establishing large numbers of farmers' buying and selling organizations in the early 1870's. In 1875 its committee on coöperation recommended that Granger organizations change over and new ones form on the Rochdale Plan (Nat'l. Grange Patrons Husbandry; pp. 95–100).

Although the Rochdale plans as promoted by these two organizations differed somewhat, they had a number of important points in common. Each provided for:

1. One-man-one-vote
2. Limitation of interest on invested capital
3. Payment of dividends on patronage
4. Cash trading
5. The Sovereigns provided for "sale at current prices," while the Grangers advised cooperators to "neither fear nor court competition."

We have no way of knowing what proportion of the coöperatives organized under the influence of the Sovereigns or of the Grange adopted the Rochdale fea-

tures. In both cases, practically all of the organizations soon failed, but the net result was a widespread acquaintance with the main Rochdale Principles.

Over the years the coöperative approach to the solution of economic problems has spread to many countries and, in many of these, the Rochdale Principles have found an appeal. One of the organizations which doubtless had an influence in spreading the coöperative philosophy embodied in these principles is the International Cooperative Alliance. Organized in 1895, it has held international conferences at intervals of two or more years since that time (Cole, 1944; pp. 254–56; 352–68).

International Cooperative Alliance report. In 1930 a special committee of the International Cooperative Alliance was set up "to inquire into the conditions under which the Rochdale Principles are applied in various countries and, if necessary, to define them." (Int'l. Coop. Alliance, 1930; pp. 88–89.) The inquiry grew out of the facts that: (1) Alliance membership included organizations of diverse sorts from some 40 countries (Int'l. Coop. Alliance, 1930; pp. 28–29); and (2) the requirement in the bylaws of the Alliance that members conform to the Rochdale Principles was difficult to interpret (Int'l. Coop. Alliance, 1930; pp. 88–89). The committee reported back to the Alliance at the next Congress held in 1934, but its report was sent back for further study (Int'l. Coop. Alliance, 1934; pp. 131–77). At the Congress of 1937, the committee's report was adopted with but two dissenting votes (Int'l. Coop. Alliance, 1937; p. 173). The report listed the following seven principles (Int'l. Coop. Alliance, 1937; pp. 145–73):

1. Open membership
2. Democratic control (one-man-one-vote)
3. Distribution of the surplus to the

members in proportion to their transactions

4. Limited interest on capital
5. Political and religious neutrality
6. Cash trading
7. Promotion of education.

The committee recommended that, although all seven are "undoubtedly part of the Rochdale System," only the first four should be required as a condition of membership in the International Co-operative Alliance (Int'l. Coop. Alliance, 1937; pp. 167, 179.)

The list adopted by the International Cooperative Alliance omits two items which numerous writers had listed as Rochdale principles, namely, operation at market prices and honesty in regard to quality. The committee held that sale at market price "was nothing more than a means for meeting the immediate necessities of their business, a temporary expedient..." and that well-established cooperatives themselves now tend to establish the "current prices" (Int'l. Coop. Alliance, 1937; p. 164).

The report makes no reference to quality of product as a principle. However, Cole in his *A Century of Co-operation* (1944) follows earlier writers by listing as a principle: "selling only pure and unadulterated goods." He does note that the principle was more important one hundred years ago than it is today (Cole, 1944; pp. 64 and 70).

Applicability of the Rochdale Principles. Today, coöperation is an important way of carrying on a wide array of economic activities. As we have seen, the Rochdale Principles were developed over the past century by writers who formulated them out of the rules, policies, and practices of a successful British consumers' retailing establishment, the Rochdale Society of Equitable Pioneers. The degree of acceptance of these principles has varied not only in Britain but from country to country. Moreover, it is commonly conceded that

not all of the official principles are applicable to all types of coöperative activity (Int'l. Coop. Alliance, 1937; p. 157; Cole, 1944; 364-65).

These principles are sometimes discussed as though an association which does not follow them to the letter is not truly coöperative. Again, they are presented as though following them assures success.⁵ It does not seem to us that either point of view is correct. We shall consider them from these two points of view, namely: (1) as tests of coöperative character; and (2) as conditions favoring success.

Open membership. The first item on the official list approved by the International Cooperative Alliance is "open membership." This was interpreted to mean the maintenance of "an open door to the admission of every fit and proper person who applied" (Int'l. Coop. Alliance, 1937; p. 148). Under the early rules of the Rochdale Society, new members were so carefully considered that Holyoake wrote in a joking manner in 1878: "One would imagine that a person... would gladly pay a shilling [the admission fee]... so that he might know how he stood among his class." (Holyoake, 1893; p. 133.) However, enforcement of the rule could not have been severe, for Holyoake, writing in 1857, devoted a full page to a description of "disagreeable persons," some of whom are found in most "public societies of all classes." (Holyoake, 1893; p. 133.) He credited the Rochdale coöperators with having tolerated them and succeeding in spite of them.

⁵ An extreme statement on this order is the following: "No cooperative organization that violated the Rochdale Principles has ever permanently succeeded; and no cooperative organization that adhered strictly to those principles has ever failed." Credited to Gide by Burley, O. C., in *The Consumers' Cooperative as a Distributive Agency* (New York: McGraw-Hill Book Company, 1939) p. 245.

A controversy in 1861 reveals the thinking on open membership at that time. New societies were advised to "seek their membership from all classes and conditions of men" and that they "never . . . inquire what politics or what religion the persons applying for membership are, but take all those who are willing to subscribe to the rules." (Holyoake, 1893; pp. 160-62.)

The principle has continued to have wide approval. In 1937 Dr. Warbasse, then secretary of the Cooperative League of the United States, stated that "the principle of open membership is universally recognized," but added that "cooperatives must stipulate the exception that no one can be admitted whose membership would be harmful to the Society." (Warbasse, 1937; pp. 10-11.) Florence E. Parker of the United States Bureau of Labor Statistics made the point more specific when she said that "Generally the only restrictive requirements [in the United States] are that the prospective member must not be engaged in a business competing with the cooperative or have other interests hostile to those of the Association." (Parker, 1939; p. 38.)

It has been said that farmers' cooperative associations violate the Rochdale principle when they restrict membership to farmers. Most farmer cooperatives, like most consumer cooperatives, aim to admit anyone who has a well-founded interest in the cooperative and who wishes to join in good faith. Both groups are suspicious of anyone who at best might be interested only in dividends on stock or at worst may be a spy for private interests. The most common membership restriction among farmers' cooperatives is that limiting membership to producers of given crops or products whose farms are located in areas served by the association. Farmers' purchasing associations, especially those handling such goods as petroleum products, lumber, and coal, frequently admit towns-

people. On the other hand, some such associations have not encouraged membership among townspeople because doing so might adversely affect an association's tax status or its ability to borrow from the Bank for Cooperatives.

One notable departure from the open-membership principle among farmers' cooperatives in the United States has been fostered by such organizations as the Farm Bureau, the Grange, the Farmers Union, and Farmers Equity Union. These organizations have often promoted cooperatives in which one of the conditions of admission is membership in their particular general organization.

Other occasional departures from the open-membership principle are: (1) that an association may temporarily close its books to new members because its facilities will not adequately serve a larger number; (2) some associations drop members who do not patronize them; and (3) some exclude for a year or two any members who withdraw to take advantage of offers from independent dealers.

In some areas, most commonly in Western Europe, some societies restrict membership to affiliates of certain churches. In practice, this may give the membership a high degree of cohesiveness because the members have dominant philosophies in common and because the local clergy may thus take active leadership in the cooperative society. Unfortunately, nonadherents are left out so that overlapping cooperatives may develop.

Open membership is probably not important as a success factor. Two aspects are involved. On the one hand, restrictions which exclude some farmers who could profitably use the association's facilities may lead to the establishment in a community of duplicate facilities with neither fully utilized. On the other hand, restriction of membership to some given special-interest group at times leads to greater harmony in association

affairs and to the provision of service especially suited to the given group.

Democratic control. The second principle in the official list deals with the method of distributing control among the members. This principle is commonly stated as "democratic control," which is widely held to mean "one man, one vote." The earliest rules of the Pioneer Society provided only for the periodic election of officers at general meetings. About a year after the Society was formed, the rule was amended to include the words: "Members present...to have, each, one vote, and no more, in the decision of all questions..." (Int'l. Coop. Alliance, 1934; p. 138).

This principle is probably the most widely accepted of the Rochdale Principles both in the United States and abroad. In the United States, 86 per cent of the 10,752 farmers' marketing and purchasing associations operating in 1936 used the one-man-one-vote plan (U.S. Farm Credit Admin., 1938; pp. 8, 25). Among consumers' coöperatives, the acceptance is even wider. Statistics are not available, but scattered reports and observation by the authors suggest that departures are rare. On the other hand, among California farmers' coöperative purchasing and marketing associations in 1936, the one-man-one-vote plan was reported by only 51 per cent of the associations (U.S. Farm Credit Admin., 1938; p. 55).

The main departure from the one-man-one-vote plan, among marketing and purchasing associations, is voting on the basis of shares held—12 per cent in the United States and 29 per cent in California in 1936. In California, however, 18.5 per cent reported voting on some basis related to patronage (U.S. Farm Credit Admin., 1938; p. 55), usually one vote for each member plus additional votes for all units of patronage in excess of stated minima. In some of those reporting votes according to shares held,

the shareholding is related to acreage so that the voting in those cases is roughly related to patronage.⁶

The emphasis on democratic control in the limited sense of one man, one vote probably grew partly out of the struggle for the political vote and partly out of early coöperative experience with voting according to shares held. In 1844 most Britons did not have the vote (Webb, 1894; p. 405). The one-man-one-vote principle emphasized the popular view that it is the individual that counts (Carr-Saunders, *et al.*, 1938; p. 247). One of the important issues of the time was Chartism, roughly 1838–1848), a central feature of which was the demand for the right to vote regardless of property status (Encyclopedia Britannica, 1929, vol. 5; p. 309). Even today in the United States, "At common law a stockholder or member of an association has but one vote...irrespective of the number of shares" (Hulbert, 1942; p. 109). The one-man-one-vote plan was further emphasized, both in Britain and in the United States, by the observation of numerous instances in which well-to-do shareholders acquired enough shares to control an organization and convert it to a profit-making venture for their own benefit.

It is held by some that, where patronage of a coöperative varies widely among members, a vote proportional to patronage is fairer than the one-man-one-vote plan (Emelianoff, 1931; pp. 173, 179–80). Although British retail coöperatives have insisted on the one-man-one-vote plan, the Cooperative Wholesale Society

⁶ Proportional voting in California may have a historical explanation. For many years, laws providing for the incorporation of nonstock coöperatives were nonexistent or unsatisfactory. Under California capital-stock laws, each share carried a vote. The plan of selling small shares in proportion to acreage where acreage varied appreciably was found satisfactory. Being accustomed to proportional voting, it was natural that farmers continued it when the nonstock plan became available.

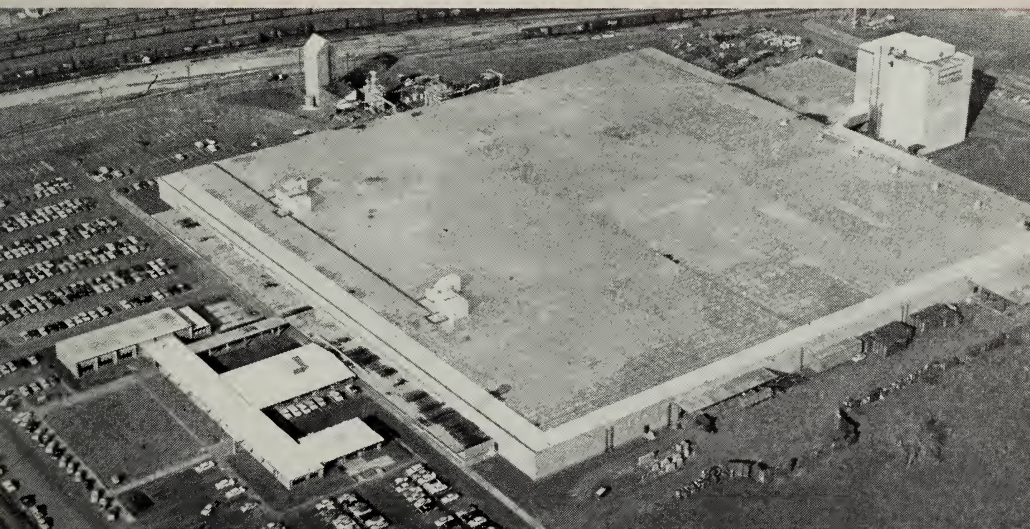


Building erected by the Santa Barbara Walnut Growers Association in 1899 and still in use. This is said to be one of the oldest walnut growers coöperatives in existence. It was incorporated in 1896 and was one of the original group that formed the California Walnut Growers Association in 1912.

very early adopted a plan under which each member society had one vote plus additional votes in proportion to its membership. In 1868 the small societies failed in an attempt to change to the one-society-one-vote plan (Redfern, 1913;

pp. 46-47). In 1921 the basis of voting at meetings of the Wholesale Society was changed from a membership basis to the basis of one vote in virtue of being a member of the Wholesale Society plus additional votes based on patronage

Bird's-eye view of new central plant of Diamond Walnut Growers, Incorporated, formerly California Walnut Growers Association, Stockton. The plant covers 14 acres. Its electronic-age automation equipment is designed to save \$1,500,000 annually in costs of standardizing, cracking, packaging, et cetera, of cooperators' crops of 100 million pounds.



(Redfern, 1938; pp. 244–45). The Scottish Cooperative Wholesale Society followed a similar plan from the start (Carr-Saunders, *et al.*, 1938; pp. 143, 273, 247).

In the early American coöperative cheese associations, the voting commonly was according to the number of cows from which members delivered milk (Willard, 1862; p. 542). In 1936, 86 per cent of the 2,442 western irrigation associations reported voting on the basis of water rights, with only 9 per cent using the one-man-one-vote plan (U.S. Farm Credit Admin., 1938; p. 254). Early California fruit associations commonly sold shares on an acreage basis and later increased capital by deductions from proceeds for the purchase of additional shares, or by retaining savings (Powell, 1913; pp. 79–81). The result was that voting was roughly proportional to patronage. When nonstock associations became feasible, it was common for many of them to provide for voting in relation to patronage. It was probably in recognition of this situation that the Capper-Volstead Act of 1922 permits departures from the one-man-one-vote plan by the purposeful wording which carries the proviso: "That no member of the association is allowed more than one vote because of the amount of stock or membership capital he may own therein . . ." (Hulbert, 1942; p. 213).

In spite of the insistence on it, the one-man-one-vote plan is more of an ideal than a practicality. In the British coöperative retail societies, it is said that small active minorities—"usually about 2 per cent"—do the voting (Carr-Saunders, *et al.*, 1938; p. 247, 252–53, 290; Cole, 1944; pp. 379–90). In American coöperatives, both urban and rural, the problem of quorums often comes up even though the required quorum is placed low, often something like 10 per cent. Often it is supplemented by proxy voting.

In summary, it would seem that democratic control, when broadly interpreted

to include voting in proportion to patronage, is a good basis of coöperative classification but that the strict insistence on the one-man-one-vote plan rules out many truly coöperative associations. As a success factor, democratic control, as above defined, prevents control from passing into the hands of those interested primarily in dividends on stock.

Distribution of savings to patrons. The third principle on the official Rochdale list provides for "distribution of surplus to members in proportion to transactions." Although it is reported that the Rochdale Pioneers thought they had invented the plan, it is much older. The above-mentioned number of 37 pre-Rochdale coöperatives (see page 6) included nine which paid patronage dividends—one since 1813 (the Lennox-town Victualing Society, organized in 1812). It has been suggested that the practice may have developed among Scottish informal societies of a still earlier date:

...The early Scottish societies existed for purchasing rather than for producing. The agent of the group bought for all; and he would take sufficient money to cover the highest probable cost, and would return the surplus to all. Here, it may be, is the germ of the dividend on purchases which, in the same region, at Lennox town, became a fact. Since anyone buying for another returns any saving, what is more simple than that those buying together should share the saving? . . . (Redfern, 1913; p. 8).

This principle is related to the fourth principle, "limited interest on capital," and to another already mentioned (see page 10) which earlier writers had emphasized, namely, "sale at prevailing market prices." This last was one of the fundamental rules laid down for coöperatives by the Third Cooperative Congress held at London in 1932 and was included

in Holyoake's "principle features" in 1878 (see page 6), in Acland and Jones's "essential points" in 1884 (see page 7), and in 1934 was placed at the head of a list of principles in Hall and Watkins' *Cooperation* (Hall and Watkins, 1934; p. 87). However, it is omitted from the list adopted by the International Cooperative Alliance in 1937 partly because it is no longer considered important where coöperation is well established. In fact, in some cases, notably in Sweden, co-operatives have made a special point of cutting prices where their own operations permitted them to do so (Childs, 1947; pp. 49-50).

The practice of operating at prevailing prices or charges and returning any "overages" to patrons has been an important factor in the success of coöperatives. In the first place, it avoided the price cutting which was sure to follow a low-price policy and which all too often led to price wars which were frequently disastrous for new coöperatives. In the second place, it guarded the new coöperative against the danger of over-optimism which commonly arose because coöperators overlooked or underestimated important expense items. In the third place, sale at prevailing market prices tended to leave the old prices as bench marks from which patrons could measure savings.

It should be emphasized that the payment of patronage dividends is not the only way coöperatives operate. Many coöperative creameries, livestock shipping associations, and fresh-fruit shipping associations have long followed the practice of settling up with producers after proceeds of sales were received. Another method, common among mutual insurance associations, rural electrification associations, and perhaps others, is to lower their rates if reserves become unduly large.

The real significance of this principle lies in the fact that savings are shared in proportion to patronage. This, in short, is an approach to the coöperative

ideal of "service at cost," with necessary interest on capital considered as part of the cost of doing business.⁷

Limited returns on capital. The fourth principle—limited returns on capital—was adopted to remove any conflict of interest between members as patrons and members as stockholders. Capital was to be hired just as labor was hired. The principle was not new with the Rochdale Pioneers. In fact, limitation of returns to capital was one of the first reforms advanced by Robert Owen and was adopted in his own firm at New Lanark, Scotland, as early as 1813 (*Encyclopedia Britannica*, vol. 16, 1929; p. 982). However, many of the coöperatives of the period from 1825-1840 did not follow this rule. The result was that thrifty members often bought stock in a successful association for the dividends it paid. The result was that such associations often became profit-making ventures owned by a few stockholders. The early American coöperatives, among both consumers and farmers, had similar experiences. Today this principle of restricting returns on capital is widely practiced by coöperatives and in the United States is recognized in state and federal law as a basic characteristic of coöperatives.

This principle is a natural counterpart of the patronage dividend and of the policy of operation at market price. Among coöperatives in which members contribute capital according to patronage, the payments to capital are sometimes omitted. In such cases it is assumed that, since ownership of capital is distributed according to patronage, the "hire" of capital (interest or dividends) may be combined with the distribution of savings on a patronage basis without

⁷ "Service at cost" as an ideal is repeatedly mentioned in writings and law. For a discussion of the difficulties in its application, see E. G. Nourse, *The Legal Status of Agricultural Cooperation* (New York: The Macmillan Company, 1927), pp. 150-56.



An early location of packing operations of the Calavo Growers of California,
at 1405 East 8th Street, Los Angeles.

The world's largest avocado plant, at Escondido, in San Diego County. Operations began here in
1949. Photos courtesy Calavo Growers of California.



changing the shares that go to the different members.

We should note again that the above four principles—(1) open membership, (2) democratic control, (3) distribution of savings to patrons, and (4) limited return to capital—constitute the basic points of difference between the coöperative and the proprietary forms of business activity.

Political and religious neutrality.

The application of political and religious neutrality, the fifth of the official Rochdale Principles, boils down to a policy of keeping an association officially aloof from matters which have no direct bearing on the business of the coöperative but on which members may have strong but divergent opinions. It means that a coöperative association avoids taking a stand on a controversy not related to its business even though most of its members favor such expression. Following such a policy on all occasions makes it relatively easy for an association to resist when partisans demand that it take a stand on an issue on which there is strong but divided feeling within the membership.

The Alliance Report emphasized that “. . . political neutrality . . . is not a renunciation of the responsibility of co-operators to defend the legitimate interests of their economic system before the legislature, but rather a strengthening of their defense by reason of its freedom from identification with any particular group or party. . . .” (Int’l. Coop. Alliance, 1937; p. 154.)

The principle of neutrality was recognized at least as early as 1832 when a coöperative congress at London adopted it as a policy for the earlier coöperatives (Holyoake, 1893; p. 154; Int’l. Coop. Admin., 1934; pp. 142–45; Cole, 1944; pp. 72–74).

In Great Britain the consumers’ co-operatives reversed their policy of political neutrality as a result of their treat-

ment by the government during World War I. The most vigorous objection was to the taxation of patronage dividends as excess profits.⁸ Although the tax was soon removed and its imposition admitted as an error, the result was the establishment of the British Cooperative Party in 1919 (Cole, 1944; p. 319).

The principle of political and religious neutrality is probably as widely followed in the United States as anywhere. Here, as elsewhere, many public questions are of direct concern to given coöperatives, and on these they take positions and present their ideas before legislatures and administrators. As one coöperator put it, farmer coöperators “should steer wide of party politics, but not of public questions.” (Brandt, 1946; vol. 7, no. 6.)

This principle is not a test of coöperative character. Rather, it is important as a success factor. Adherence to it has doubtless made success easier over the years in times when political or religious controversies were extremely bitter.

Cash trading. The sixth of the official principles—cash trading—as found in the rules of the Rochdale Society in 1844 was that “the officers of the Society shall . . . not purchase any article except for ready money, neither shall they be allowed to sell any article or articles except for ready money.” (Int’l. Coop. Alliance, 1934; p. 145.) The principle was not original with the Pioneers, for the rules of some British coöperatives in 1830 contained the restriction: “Credit shall neither be given or received.” (Holyoake, 1906; p. 100.)

The importance attached to the principle in the early days probably arose from the observed evils of the credit sys-

⁸ The coöperatives met this action by operation at such narrow margins as to eliminate profits. The C.W.S., which had to pay a tax of nearly a million pounds on its 1916 and 1917 business, kept margins so low in 1918 as to show a trading loss, thus enabling it to recover most of the tax it had paid. Cole, *A Century of Co-operation*, p. 267.

tem as widely practiced in England of the early 1800's. Credit was extended by the "truck shops" which were company stores at which workers were expected to spend their earnings. Independent retailers likewise extended credit so freely as to keep customers in "bondage"—a meaningful term when imprisonment for debt was common—thus enabling themselves to charge high prices.

The Owenites of that day criticized the use of credit on three main grounds: (1) it permitted retailers to charge high prices; (2) it increased the costs of retailing because of added record-keeping and bad debts; and (3) it tempted consumers to buy beyond their needs. These continue to be among the objections. In addition, credit is often criticized on the grounds that favoritism grows from the fact that every coöperative must limit credit in amount or to selected customers since extension of relatively unlimited credit would require so much capital as to wreck an association.

Coöperative leaders have long given cash trading their approval as a principle and have urged it as a practice, but the principle has been widely violated. Holyoake and other British writers bemoaned departures from the principle. In the United States, a report on the coöperative-store movement in New England during the 1850's classed the widespread use of store credit as one of "the two most serious evils" of the time (the other being the liquor habit) (Bur. Stat. Labor, 1877; p. 81). The coöperatives organized by the Sovereigns of Industry during the 1870's faced the same problem (Bur. Stat. Labor, 1877; p. 106).⁹ In recent decades the subject has interested the International Cooperative Al-

liance (Klipzig, 1930; pp. 169-80). All of these frequently refer to the danger of failure through credit trading.

Some years ago, an attempt was made to determine what it was costing a group of middle western coöperatives to extend credit to their members. It was found that the average cost of credit per \$100 of credit sales in a group of 24 petroleum coöperatives was \$3.80. The items making up this total were: \$1.40 for administrative and office salaries; 60 cents for office supplies, postage, legal, and other special credit expenses; 80 cents for losses on bad debts; and \$1 in interest costs. (Knapp, 1939; p. 15.) (Such data on costs might be made the basis for a special charge for credit or a discount for cash.) Credit sales constituted 53 per cent of all sales in this group.

The extension of credit continues to find a place on coöperative association programs. In 1934 a British coöperator asserted that "the method adopted 90 years ago is entirely different from the methods of today" and urged the development of methods of meeting competition. He pointed out that the granting of credit to members in Britain had enabled coöperation to grow (Int'l. Coop. Alliance, 1934; p. 170). In 1939 a United States coöperator vigorously urged a cash trading policy (Cowden, 1939; pp. 657-66; 1948; p. 366). In 1945 another coöperator stated that "credit has become a service in G.L.F. stores in the last 10 years. Today, it is just as essential . . . as our grinding and mixing service—credit can be just as safe . . . provided it is operated with selection, horse sense, and care." (Dudley, 1945; pp. 12-17.)

Among coöperators who hold that credit extension is a useful function for coöperatives to perform, the discussions deal with methods of making such operations safe and fair. The suggested procedures include a variety of devices, ranging from advance payments in the form of deposits by members desiring

⁹The report quotes a paper by Amasa Walker: "An association must neither give nor take credit; if it does, the result will be unsatisfactory. 'Cash down', must be the motto!" "The credit system has ruined many associations, because it makes cooperation difficult and dangerous. Credit is the workingman's greatest curse."

credit (Cowden, 1948; p. 366), to policies of careful control of amount of credit granted and adherence to strict collection policies. One recommended plan is to urge members to make use of the various available credit agencies such as local banks, credit unions, and the Production Credit Associations to enable them to pay cash for current requirements.

Experience thus suggests that adherence to a cash trading policy is not a clear-cut success factor. Refusal to give or to facilitate the getting of credit frequently makes it difficult to meet competition and may thus lead to ultimate failure. On the other hand, lax credit extension is certainly one of the "poor business methods" which frequently contributes to failure.

Promotion of education as a principle. The Rochdale Pioneers emphasized the seventh principle—promotion of education—because it was so badly needed by the associations' members. Illiteracy was high and schooling for the poor was largely out of reach. For those who had a little education, libraries were seldom available and books, magazines, and newspapers were relatively expensive. Therefore, much as the members needed any patronage dividends, the small coöperative used part of its savings to provide a reading room. Horace Greeley, writing for Americans in 1870, stated that the "library of 5,000 well-chosen volumes and reading room supplied with the best newspapers are free to the members and their families." (Greeley, 1870; pp. 27–80.)

At first, the aim seems to have been to provide education of a general sort but with emphasis on social and economic problems. (Holyoake, 1906; pp. 72–91.) (The background of most of the Pioneers doubtless made them conscious of the need for propagating their ideas of social reform. Note the long list of periodicals of about 1822–1830 discussed by Holyoake.) But at least by 1884, edu-

cation was recognized as necessary to the continued life of the association. In that year Acland and Jones wrote: "... as general educational progress is made ... it becomes of more and more vital importance, if co-operators are to maintain their work, and not fall backwards while others move on, that they should themselves be educating the new generation as it arises." (Acland and Jones, 1884; p. 116.) So important did the Pioneers consider the promotion of education that they engaged in a controversy with the Registrar who held it illegal to provide in the rules for such use of funds (Holyoake, 1893; p. 73). When the laws permitted them to do so after 1852, they provided in the rules for 2½ per cent of savings to be set aside for this purpose (Hall and Watkins, 1934; p. 166). Although by no means universal, the practice of setting aside funds for such purposes is now widespread.

The committee of the International Co-operative Alliance recommended that "the maintenance of the principle is essential" and that "Societies should provide the means of promoting education in those matters which specially interest co-operators as aids to the realization of their ideals." (Int'l. Coop. Alliance, 1937; p. 160.)

This principle cannot be considered a test of coöperative character, but it has been important in the growth and continuity of coöperatives. Successful businessmen long ago learned that it was important to do "institutional advertising" to keep the names of their organizations favorably before their public. Coöperatives that have been successful over long periods have done the same. They have found that some members soon lose interest in the coöperative much as a child loses interest in a new toy. They forget why they joined the coöperative. Lest they hear only what their competitors say, they need to be reminded in an interesting way of the good points of their association.

Should We Add Other Principles?



HUS FAR, we have traced the development of the Rochdale Principles and have noted that adherence to some of them gives an organization coöperative character while adherence to others may tend to increase its chances of being successful. Let us now ask whether other precepts are worthy of being listed as principles. Many have been suggested, but some of these are merely different ways of stating certain Rochdale principles while others emphasize additional aspects of coöperation. No conclusive answer can be given because there is no satisfactory way by which we can measure the relative importance of these or other principles as success factors. In fact, there is no way in which we can determine how large a proportion of any reasonable sample group of the associations which have succeeded or failed in the more or less distant past complied with or did not comply with, let us say, given Rochdale principles. The best we can do is to examine such scattered evidence as is available as a basis for formulating any principles.

What is "success" or "failure"?

We might ask what we mean by success or failure of a coöperative. How long must an association operate to be called "successful"? How large must it become? Or must it grow? Were any of the previously mentioned (see page 6) 37 pre-Rochdale societies successful? The literature of coöperation abounds with stories of successful co-operatives, most of which are now extinct.

Since the word "failure" usually implies losses, some writers use some such term as "discontinuance." When an as-

sociation discontinues with losses to its creditors and members, it has obviously failed. When one discontinues without losses by merging with another or drops out because the need for it has passed, the move may be a good stroke of business. Most discontinuances probably were failures (Cochrane and Elsworth, 1943; p. 38), but by no means all of them. Cochrane and Elsworth (p. 13) suggest that 95 per cent of discontinuances studied were probably failures. As an example of discontinuances which were not predominantly failures, we may note the 2,069 discontinuances reported among livestock marketing associations in the United States during the 12-year period following 1924, which was the peak year for that group (Elsworth and Wanstall, 1941; p. 28). The main reason for discontinuances in this group seems to have been the rapid development of motor transport for livestock along with decentralization in livestock slaughter. The need which led to their establishment had passed, and they closed shop, usually without losses. In the dairy industry, the development of motor transport and of the multiple-product plant has led to numerous discontinuances as smaller co-operatives merged to form larger and more economical business units. In a California citrus area, seven citrus packing associations recently consolidated to form three associations because production in the area had declined and because transportation and handling methods had changed. The sale of excess facilities was profitable and the new operating units are more efficient than the old.

Why do coöperatives fail? Coöperative associations are relatively easy to

form, their objectives are usually very desirable, and their operation seems relatively simple. Why, then, do so many of them fail? The question has been discussed by many writers. The oldest of these to come to the authors' attention is that quoted by Catherine Webb from a talk "by a leading cooperator" at the Third Cooperative Congress held in London in 1832. This, it will be noted, was before the collapse of 1834 (see page 5) and referred to failures between about 1821 and 1832 (Webb, 1906; p. 59). The rather vague group of causes of failure included lack of interest by the members who not only failed to attend meetings but also failed to patronize their stores; failure to provide for audits and inventory controls; and "incapacity and dishonesty of . . . managers." Since that day, numerous more or less systematic attempts have been made to assemble statistics on these causes.

A number of these systematic studies may be mentioned. In 1884 two British writers reported that 1,061 coöperative societies had "become extinct since 1862." Without indicating the extent of their inquiry, they summed up the causes of success and causes of failure. (Acland and Jones, 1884; pp. 72-73.) In 1918 the Cooperative League of the United States published a four-page pamphlet entitled "Why Cooperative Stores Fail." In 1923 and again in 1927, the United States Bureau of Labor Statistics reported on the causes of failure among consumers' coöperatives in the nation during the five-year periods ending respectively in 1920 and 1925 (Parker, 1923; pp. 74-75; 1927; pp. 96-103). In 1928 The Federal Trade Commission included a chapter on "Cooperative Suspensions and Failures" in a 721-page report on Cooperative Marketing (Fed'l. Trade Comm., 1928; pp. 299-322). Also, in the United States Department of Agriculture numerous studies have been made of available data on failures or discontinuances. The first of these was that by

George K. Holmes who directed a survey about 1900 for the Industrial Commission (U.S. Ind'l. Comm., 1901; p. ccxciv). A second was reported in 1923 covering 243 associations which had "ceased to function since 1913." (U.S. Bur. Agr. Econ., 1923; p. 5.) A third, reported in 1924, covered 608 of some 1,000 organizations going out of business during the ten years from 1913 to 1922 (U.S. Bur. Agr. Econ., 1924; pp. 3-5). Finally, in 1943, a report (Cochrane and Elsworth, 1943; p. 38) appeared, which summarized available evidence on 14,655 coöperative discontinuances between 1875 and 1939.

In all of these studies, the causes of failure as reported follow a monotonous pattern of similarity, often vague and overlapping. For example, in the two above-mentioned reports of the United States Bureau of Labor Statistics, the following 11 causes make up 74 per cent of the total number mentioned: inefficient management, overstocking, poor bookkeeping, unwise extension of credit, disproportionately high overhead expense, purchase of slow turning stock, operation on too small a margin, operation on borrowed money, insufficient capital, money tied up in fixed assets, and poor location. However, inefficient management (constituting but 12 per cent of the items mentioned) is a broad term which includes the other 10 items constituting 62 per cent of the number mentioned.

Again, there is an interrelation between such terms as "unwise extension of credit," "operation on borrowed money," "insufficient capital," and "money tied up in fixed assets." Thus, the first or the last might well lead to the second and third.

In the Cochrane and Elsworth study, 11,272 reasons for discontinuance were available for about half of the 14,655 out-of-business associations of record. The authors suggest that "it seems logical to infer that the reports made for 7,373

associations are valid for the remaining organizations.” The authors grouped the 11,272 reported reasons for discontinuance as tabulated below.

This grouping is subject to the criticism of duplication already made. Over half of the cases grouped under “difficulties in the field of management” were included in a subtitle “ineffective management,” yet, most of the other items in the field-of-management group were but the details that make up “ineffective management.” Furthermore, some of the items listed in the membership group or under finance and credit are likewise attributable to “ineffective management.” (Cochrane and Elsworth, 1943; p. 29.)

The reasons for failure are difficult to evaluate in particular cases because the process of failure usually extends over a period of years while a number of causes of failure are at work. Moreover, the sources of information about extinct organizations are such that only fragmentary observations are commonly available to those making the reports, and these are often biased. Information on coöperative failures comes largely from five sources: former managers; directors; members; nonmembers who have had contacts with the coöperatives; and public officials (including auditors). (Documentary evidence is seldom available or adequate, though it is enlightening if adequate.) Even managers and di-

rectors are often unaware of developing weaknesses, while members are seldom in position to have more than a superficial knowledge of affairs. Public officials seldom have sufficient time or opportunity to examine records and interview informed persons in order to make an evaluation.

The items reported as causes of failure are usually not additive. If a person reporting on an organization gives the reason for failure as “inefficient management,” while another says about the same organization, “poor bookkeeping” and “overstocking,” the second reporter has really named two of the numerous aspects of inefficient management.

It may be interesting to note the relation of reported causes of failure to the Rochdale Principles. In the Cochrane-Elsworth study, an examination of the data suggests that perhaps 18 per cent of the reasons given for failure were of the sort that a good education program might have enabled a coöperative to avoid (please see page 18). An additional 4 per cent concerned credit extension and over-advances (see pages 17 to 18). The rest do not appear to have any particular relation to the Rochdale Principles as listed above. In the Bureau of Labor Statistics studies, the proportion having any relevance to the Rochdale Principles is even smaller. Even if we recognize the faults of the statistics, the

	<i>Frequency</i>	<i>Per cent</i>
Difficulties in the field of management.....	2,234	19.8
Difficulties in the field of membership.....	2,220	19.7
Natural or unavoidable causes.....	1,231	10.9
Insufficient business for efficient operation.....	1,161	10.3
Financing and credit difficulties.....	1,079	9.6
Transportation problems	1,020	9.1
Opposition from competing enterprises.....	1,003	8.9
Declining prices	614	5.4
Consolidations and mergers.....	357	3.2
Technological changes	135	1.2
All others	218	1.9
Total.....	11,272	100.0

implication is clear that factors other than violation of the Rochdale Principles are involved in most coöperative failures.

Let us now explore further the desirability of setting forth other points which may be considered as principles favoring success. But let us first attempt to clarify several propositions which are often stated as principles. They are:

1. There must be a need for the association
2. There must be an adequate volume of business
3. A marketing association must be organized on a commodity basis
4. There must be continuous expansion.

"Need" as a fundamental. It has often been said that successful coöperation must be based on "economic need." But when the question is raised as to just how one determines economic need there is seldom a clear-cut answer because "need" is a relative term. When one says that "practices are inefficient," that "charges are excessive," or that "farm prices are too low,"¹⁰ it must be recognized that each can be out of line only by comparison with some situation that is considered superior or by comparison with some ideal.

The term "economic need" is one of those expressions often used without clear definition. There are, of course, cases in which available services for selling or purchasing are very superior as where large chain stores or supermarkets are keenly competitive; here it may well be said that there is not a need for a coöperative. At the other extreme, there are instances where available services are so poor, ill-adapted, or expensive that the need is obviously great. Successful coöperatives are found at both extremes, with the greater number probably somewhere between the two. Perhaps we

¹⁰ These terms are used in a list of cases in which "need" may be said to exist. See McKay, A. W., and C. H. Lane, *Practical Cooperative Marketing* (New York: John Wiley and Sons, Inc., 1928), pp. 394-99.

should emphasize the *operation* rather than the *situation*. To continue a successful existence, a coöperative must be able to carry on its operations so as to meet or beat competition. It must be able to do so by a sufficiently wide margin to make its members feel that the effort is worth while. That they feel thus at the start may be because of difficulties with existing agencies or because the group has been alerted to the existence of problems and convinced that coöperation is a way of doing something about them. There have been numerous instances in which coöperatives have been established where they could not render enough service to carry the necessary expense burden. An extreme example is that of a coöperative creamery established in a western town, the trading area (20-mile radius) of which did not supply enough cream to occupy more than about a fourth of the services of this one-man creamery. Of course, the venture failed within a few months. If members of the coöperative are to continue to feel that the effort is worth while after competitors have met the coöperative in price or service, they must occasionally have their enthusiasm renewed. In the long run, a coöperative may be expected to continue successfully only so long as it continues to lead its competition in serving its members, provided the members believe such to be the case.

Among the reports on discontinuances, one finds frequent reference to passing of the need for a coöperative's services as a reason for its discontinuance. This was the case with many of the coöperative livestock shipping associations mentioned above (see page 20). This reason is probably a more valid and more fundamental reason than many others mentioned. A coöperative can often make a good showing in its early stages if it can make improvements in services and/or reduce costs. However, its operation is sure to stimulate competitors to meet it in price and service so that one soon

hears members say "I can do as well elsewhere." When that stage is reached, it becomes difficult to get new members as oldsters drop out, and slow decline may set in unless the association continues to improve its services and tells members about itself.

Adequate volume of business. Inadequate volume of business is often given as a reason for failure of both small and large associations. "Adequate volume" is another relative term. What is usually implied is that the volume of business was too small to make effective use of: (1) the minimum physical business unit necessary to conduct the desired operations; or (2) the particular physical resources and manpower placed at the disposal of the given association. Viewed in this light, a small local or a large centralized association may each suffer from "inadequate volume."

Often a coöperative has provided plant and facilities and set up a staff calculated to handle a much larger volume than was ultimately available. Whatever the reasons, such an association, small or large, would have "excess capacity" and consequently tend to have unit operating costs too high to permit the association to operate within the margins established by competition.

In this connection, it should be noted that unit operating costs do not decline indefinitely with added volume. Moreover, the low-cost points may fall at different volumes for each of a number of the operations a given association may carry on. Any association may become so large that its operating costs rise with further increases in volume. Such a situation could arise, for example, where a dairy association could obtain further reductions in unit processing costs with increased volume but would incur higher unit hauling costs by having to go farther afield to obtain the additional milk supplies.

Scope of activity. Every association established to conduct a business undertaking must incur certain overhead expenses such as the employment of a manager and a minimum office force, making provision for office or other operating space and acquiring any needed equipment. Often, as in the case of a fresh fruit marketing association, the main activity is carried on during only a few months of each year. In the cases of most agricultural associations, there is a significant seasonal variation in volume of business. Out of these conditions grows the conflict between: (1) the desire to attain efficiency by specializing on one activity; and (2) attaining economies by arranging to share the overhead with other services or commodities.

Some students of coöperation have stated as a fundamental principle that successful coöperation among farmers must be founded on a single industry or commodity (Powell, 1914; p. 18). The idea was especially emphasized by some in the early 1920's.¹¹ At the other extreme, it has been urged that multipurpose associations should serve whole communities, particularly in underdeveloped areas. (Proceedings Int'l. Conf. on Agr. and Coop. Credit, 1952; pp. 376-78, 380, 382, 472-79, 506-07, 721, 727, 1008-09.) Even in such cases, however, caution is urged against unwise combinations of enterprises (Campbell, 1951; pp. 174-80).

Examples of successful coöperation can be cited of both the single-purpose and the multipurpose coöperative. A considerable number of successful coöperatives make the handling of single commodities almost, if not entirely, their only business. Instances which come to mind include almonds, walnuts, oranges,

¹¹ Sapiro, Aaron, "An Analysis of Marketing: Fundamental Principles of Cooperation," an address delivered at the annual meeting of the American Farm Bureau Federation on December 11, 1923, Chicago, and published by that organization. Page 5 discusses the commodity argument.

lemons, apples, cranberries, avocados, potatoes, turkeys, lima beans, rice, and eggs. Quite commonly in the United States, two or more commodities are handled by marketing coöperatives which increasingly also handle supplies needed by their members. General marketing associations handling a variety of unrelated products are rare. What is a suitable combination of activities in a given coöperative depends on two basic considerations: (1) group of farmers or others will work together in a coöperative only if they recognize a common objective; and (2) proposed combination must be a feasible one in the given competitive situation, one in which the parts are so integrated as to permit increased efficiency.

Farmers in a mixed farming area, where every farmer produces some of each of the common products, may easily meet the first test. But the specialized prune growers in regions of specialized farming are not likely to have many problems in common with the dairymen, the cattlemen, or the vegetable growers of the same locality. Even where the same farmers are interested in several such commodities as prunes and milk, this particular combination probably would not be a feasible one. The processing and marketing of prunes and dairy products would not be an effective combination even if both commodities were produced in the same locality because: (1) quite different types of handling facilities are required; (2) widely different training and experience are needed in the employees; and (3) entirely different sales outlets are used.

The multipurpose coöperative is being recommended in some underdeveloped countries on two main grounds: (1) scarcity of managerial ability; and (2) economies in operation. It is said that in many communities in such countries there are so few men with the necessary training and experience that the same men must ordinarily be called upon for

all such work in the community. This may often be true. On the second point, it is argued that in many cases not enough of each commodity is produced locally to support a coöperative. However, the economy argument is not valid if volume is to be obtained by adding small quantities of diverse commodities which do not supplement or complement each other in the various operations which are involved in handling them (Campbell, 1951; pp. 174-80).

Continuous expansion. The idea of coöperative expansion is not new. The Rochdale Pioneers listed as one of the purposes of the new society "to arrange the powers of production, distribution, education, and government as soon as practicable." (Holyoake, 1893; p. 12.) Actually the Pioneers were referring to the self-sufficient colony they were contemplating.

There is doubtless some validity in the arguments for continuous expansion. But to insist that it is either a case of continuous expansion or of decline would seem to be an overstatement. We have already pointed out that a coöperative must continuously adjust its operations to new conditions if it is to meet or beat competition. This may mean new kinds of services or new ways of providing old services. In recent years, farmers' coöperatives in the United States have entered the terminal grain, livestock, cotton, and other markets, have undertaken the procurement of farm supplies at wholesale, including the manufacture of feeds and fertilizers, and have even entered the oil fields. These have been natural developments as the leaders in the local and central groups saw opportunity for additional service by both vertical and horizontal integration. As coöperative leaders develop skills and business "know-how", additional expansion may be warranted.

The present writers are inclined to feel that acceptance of the doctrine that there

must be continuous expansion or decline will follow leads some groups into difficulty. Unfortunately, history shows that many a coöperative has failed as a result of premature, ill-timed, or other type of unwise expansion. When a coöperative expands its scale of operations or reaches into new fields, it is particularly likely to run into difficulties of both management and finance. There are serious limits to the extent to which farmers can act intelligently on problems in-

involved in processing and manufacture on a large scale. Furthermore, there are limits to the number of nonfarm activities farmers can finance. Most farmers are pressed for funds to carry on their farming operations on a scale and technical level that would be most profitable. There comes a point when the individual farmer believes, often justifiably, that he can more profitably put additional money into his farming operation than into a more remote service venture.

Four Additional Principles



WE SHOULD like to suggest consideration of four additional propositions as principles, or at least as essentials for success. Note that the second was important in the rules and practices of the Rochdale Pioneers and that it was included in some of the earlier statements of principles, though omitted from the official list of today. The four are:

1. Suitable corporate and financial structure
2. Suitable records, accounts, and audits
3. Competent management
4. Dynamic leadership.

Suitable corporate and financial structure. An association should be set up so that, under the law of the particular state, it can operate smoothly and continuously over a long period of time. In particular, it should provide clearly for: (1) operation as a coöperative in regard to (a) voting by its patron members and (b) distribution of savings on a patronage basis; (2) a financial structure that will provide for financing by patrons but with opportunity to draw

on outside sources without loss of patron control; and (3) devices for an automatic and gradual shift of voting and ownership rights from generation to generation of patrons, lest its coöperative characteristics disappear.

It is sometimes difficult to translate coöperative principles into articles of incorporation and bylaws. It is important not only that legal advice be obtained in developing plans, but also that it be from counsel with wide experience on legal problems of coöperatives. Incorporation laws vary so widely from state to state that even so simple a feature as the method of voting cannot safely be copied from borrowed bylaws by an amateur. For example, some states require coöperatives to use the one-man-one-vote plan; some merely permit its use; and some are indefinite.

Numerous other legal differences affect the form of organization and the required or permitted practices in given states.¹² The use of the deservedly popu-

¹² In addition to differences in state laws, coöperative associations in any state need to adapt to internal revenue regulations.

lar revolving finance plan is another example of a feature that needs careful drafting if difficulties are to be avoided as time goes on. A coöperative attorney has pointed out that:

*Revolving funds as such have no significance in law apart from the contract which gives rise to them. Capital stock, of course, has a status well defined in law. For the revolving fund, there must be in the association's legal structure complete provisions as to what it is to the cooperative, to the members or other holders of revolving fund credits, and what its status is in relation to the cooperative's creditors. In other words, a non-stock association whose capital is in a revolving fund must have a legal structure which does for the revolving fund what the law does for capital stock. The legal structure must supply what the statutory law lacks.*¹³

Suitable records, accounts, and audits. One of the items mentioned in many of the earlier formulations of the Rochdale Principles, but omitted from the official list, is that dealing with records, accounts, and audits. These are of particular importance to coöperative associations. Their records must be clear on such matters as the amounts each member has paid on membership, capital stock, or other forms of investment in the coöperative. They must indicate how much each patron has sold to or through the association or purchased from it and, if a pooling plan is used, must show his interest in each pool to which he has contributed. Finally, they must show how much has been credited to each patron in current or deferred patronage dividends or in capital or other reserves.

¹³ Smith, Percy, "Legal Status and Background of Cooperatives." Mimeographed paper presented at several regional agricultural extension schools, University of California, June, 1950. (Mr. Smith is attorney for the Berkeley Bank for Coöperatives.)

Then there are the usual accounting records from which monthly and yearly income and expense statements are made and from which any cost analysis has its start. These accounting records are especially important because they and data derived from them must serve as guides for management in the conduct of the business.

Finally, there are audits, both internal and external. Small organizations often provide for auditing committees. These examine the various records and accounts to satisfy themselves that records and accounts are accurate and complete. Such committees are usually elected by the membership for independence of the management and the board of directors. In larger organizations there is frequently a competent accountant who is designated as auditor and who provides similar information to the management for its own use.

Finally, there is the annual audit by a competent public accountant who is employed by the board of directors, not by the manager. Such an independent audit should not only inform the board of directors and the members of the correctness and adequacy of the records and accounts, but also should give an independent view on operating procedures which need improvement.

Competent management. The importance of good management in the success of coöperatives is widely recognized. As indicated above (see pages 20 to 22) inefficient management in its broader sense—that is, including both the decisions of the board of directors and the decisions and actions of the manager—may be credited with a major share of the failures. This is particularly true if one recognizes the fact that high-caliber management would have corrected many of the errors which caused failure.

It is easy to say that competent management is fundamental but not so easy

to say what it includes.¹⁴ Management of a corporate, as distinct from an individually owned business, includes the combined job of the board of directors and the manager it employs. In a coöperative corporation, the board represents the interests of the members. It lays out a general policy which it gradually modifies as it approves or disapproves planned or past actions of the manager. The manager in turn directs the immediate affairs of the association along lines approved by the board. He may himself have laid out the plans for the board's approval, or members of the board may have done so. But the "thinking through" part of the job is most effectively done jointly by board and manager. Both should be competent. An enthusiastic but misguided manager may mislead an unthinking or unanalytical board. A reactionary, vacillating, or unthinkingly enthusiastic board may mislead or hamper a manager. Responsibility for errors is seldom clearly discernible in such a body. A competent board can guide a mediocre manager or more likely will get a better one. A strong manager may lead a mediocre board and may even help get a competent board elected.

The difficulty a board faces in selecting a competent manager stands out when one notes some of the intangible characteristics commonly found in good managers:

1. The ability to handle people, meaning that: (a) he is capable of selecting the right person for each job; (b) he can get employees to do their best; (c) he can so lay out the various jobs that each employee knows what is expected of him; (d) he can make sure that the employee's time is fully utilized in productive effort by properly planning the work; and (e)

¹⁴ For an interesting attempt to separate the total job of management into three zones or levels, see Halden, Paul E., L. S. Fish, and H. L. Smith, "Top Management and Control." (Stanford: Stanford University Press, 1946) pp. 16-28.

he can fire as well as hire—he stands ready to correct mistakes in his judgment of persons.

2. He can carry in mind the relationship between the association's broad policy and the day-to-day functioning of its several parts. As one problem after another arises, he is able to size up the important aspects in each case and to make decisions which are in accord with the organization's policy and which fit into long-time plans.

3. He is able to plan for the future of the organization. He goes to board meetings with well-considered plans for the next month, the coming season, or the years ahead.

4. He is able to work with his board of directors—even a critical board—and can instill sufficient confidence to get it to carry on.

5. He appreciates the value of records and accounts for three main uses: (a) he watches them as an engineer watches his gauges to know how his machine is running; (b) he uses the results as guides to continuous adjustment; and (c) he uses them to keep the members informed.

6. Finally, a good manager meets his members and the general public well and is able to present the association's story clearly and convincingly both to the members and before public bodies.

An incompetent manager is often "in hot water" because he does some or all of these things badly. He hires the wrong people or puts them in jobs for which they are not suited, leaves job assignments so indefinite as to lead to internal squabbles, lets the payroll climb out of proportion to the business at hand, and fails to reduce it when business falls off.

A poor manager may have no plans, may not have thought through such plans as he has, or he may let visions of grandeur distort his judgment in relation to plans. In the latter case, he may plan for a building that is too large, may


buy equipment that is too big, may buy supplies in excessive quantities, and may undertake too many or conflicting enterprises.

Furthermore, a poor manager often blames members of the board both for the errors and for the responsibilities not carried out by the organization and may avoid reporting on matters of which board members may be critical.

Dynamic leadership. Why have co-operatives often functioned brilliantly for a few years, even for a generation, only to fail thereafter? In addition to reasons already discussed is the fact that too great dependence may have been placed on the leadership of one man with no plan for the development of new leadership. Many an association has developed out of the "drive" of a single leader or has been lucky enough to have a strong leader emerge from its early membership, but if new leaders are not in the process of development, such a one-man organization is likely to begin its decline when this leader drops out. The more important the manager or some other leader is in the success of an

organization, the greater the danger to the association's long-time success from failure to develop new leaders among the members. The membership as a whole tends to be apathetic. Yet, no association is at its best without an alert and loyal membership. Both qualities can be instilled by dynamic leadership—not just one leader but a sufficient number scattered throughout the organization to provide material continuously for a competent board. The development of such leadership is a major problem in itself. It is sometimes proposed to develop it by limiting the length of time a director may serve. While rotation of directors is better than keeping them on " 'til they go to seed," it may mean pushing a good man into relative inactivity just as his experience on the board begins to count. In recognition of the leadership problem, many farmers' coöperatives in the United States and elsewhere are emphasizing coöperation as a phase of education at high school and college. The American Institute of Cooperation in recent years has recognized the problem by giving the several youth groups an important part at its annual sessions.

Summary and Conclusions

 COÖPERATION developed slowly over a long period of years. In England a considerable development took place in the early 1800's, totaling several hundred societies. Most of these early efforts failed. One organization, the Rochdale Equitable Pioneer Society, established in 1844 and still in operation, was so successful that it attracted the attention of a number of writers in search of the reasons for its success. They soon made it famous the world over.

The main contribution of the Rochdale Pioneers, as its founders have come to be called, was to bring together, in a set of rules, a number of the best points that had been developed by English coöperatives during the preceding quarter century. They did not formulate them as principles. This was done over the years by a succession of writers. Seven were finally adopted in 1937 by the International Cooperative Alliance as official.

These principles are sometimes dis-

cussed as though an association which does not follow them to the letter is not "truly coöperative." Again, they are presented as though following them assures success. It does not seem to us that either point of view is correct. It seems rather that in quite varying degree they are tests of coöperative character and facilitators of success.

The Rochdale idea was brought to the United States at least in 1860 when an early edition of Holyoake's "History" was published in this country. And in 1862, the first Rochdale type of society is said to have been organized in this country using the rules of the English society. A little over a decade later, some

of the principles were recommended to the Granger societies then active. Some of these principles have become a basic part of our coöperative system. Among these are democratic control, limitation of return to capital, and provisions for patronage dividends.

A study of available data on failures among coöperatives leads to the conclusion that only a relatively small proportion of such failures can be laid to violation of the Rochdale Principles.

Several additional precepts are offered by the authors as essentials for long-term success. The more important points covered by these are competent management and dynamic leadership.

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